

August 25, 2017

Via email to: regcomments@ncua.gov

Mr. Gerard Poliquin
Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Comments on Stabilization Fund Closure

Dear Mr. Poliquin:

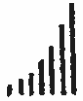
Eastern Corporate Federal Credit Union ("**EasCorp**") appreciates the opportunity to comment on the proposal (the "**Proposal**") by the Board (the "**Board**") of the National Credit Union Administration ("**NCUA**") to take certain actions in connection with the closure of the Temporary Corporate Credit Union Stabilization Fund (the "**Stabilization Fund**"). According to NCUA's Federal Register release regarding the Proposal (the "**Federal Register Release**"),¹ the Board is proposing to: (a) close the Stabilization Fund in 2017, prior to its scheduled closing date in June 2021; (b) distribute all of the Stabilization Fund's assets, liabilities, property, and funds to the National Credit Union Share Insurance Fund (the "**Share Insurance Fund**"); (c) raise the Share Insurance Fund's normal operating level (the "**NOL**") from 1.30 percent to 1.39 percent; and (d) position the Share Insurance Fund to distribute a return to insured credit unions of an amount equal to the equity of Share Insurance Fund in excess of the NOL.

The Federal Register Release indicates that the Board is seeking comments on the Proposal and on any other relevant issues commenters believe the Board should consider with respect to the Proposal. The Board states that, among other things, it is particularly interested in comments on whether to: (a) close the Stabilization Fund in 2017, close it at some future date, or wait until it is currently scheduled to close in 2021; and (b) set the NOL based on the Share Insurance Fund's ability to withstand a moderate recession or a severe recession. EasCorp's comments are set forth below.

The credit union industry and other interested parties need more time and information to comprehend the Proposal and evaluate its merits.

NCUA officials are to be commended for the time and effort dedicated to researching this issue, as well as developing the Proposal. Alternatively, the industry will have little more than six weeks to consider the Proposal's potential implications and unintended consequences.

¹ See, B2 F.R. 34,982 (July 27, 2017), National Credit Union Administration: "Closing the Temporary Corporate Credit Union Stabilization Fund and Setting the Share Insurance Fund Normal Operating Level."



Additionally, respondents have limited access to the supporting information NCUA used to develop the Proposal. With so much at stake, we encourage the NCUA to provide additional data and adequate time to consider the implications of merging the Stabilization Fund into the Share Insurance Fund.

It appears at least some individuals and organizations in the credit union industry have voiced concern that NCUA might declare a Share Insurance Fund insurance premium assessment at the end of 2017. However, NCUA's recent projections indicate that the Share Insurance Fund's 2017 year-end equity ratio is likely to be in the vicinity of 1.23 percent, which would not require NCUA to impose a Share Insurance Fund assessment at the end of 2017. Thus, there is no compelling need to rush to close the Stabilization Fund by the end of 2017 to bolster the Share Insurance Fund's equity ratio so as to avoid an assessment. NCUA therefore can, and should, delay closing the Stabilization Fund, and rebating special assessments, until the effects and consequences of doing so can be more completely understood.

Merging the Stabilization Fund and the Share Insurance Fund increases the potential volatility of the combined Share Insurance Fund.

Among the many aspects of the Proposal that remain unclear is the extent to which the models and assumptions on which the Proposal is based adequately take into consideration event risk. Ironically, the failure of models to predict "black swans" is perhaps the most important lesson of the Great Recession. Since 2009 until fairly recently, NCUA's approach seemed to recognize this lesson learned. Less than a year ago, in NCUA's "Questions and Answers – Fourth Quarter of 2016 Corporate System Resolution Costs and Assessment Range," NCUA took the position that combining the Stabilization Fund and the Share Insurance Fund "creates the potential for significant volatility in the equity ratio of the Share Insurance Fund with any downturn in the performance of the legacy assets, given the current size of the remaining obligations in relation to the size of the Stabilization Fund."

Closing the Stabilization Fund and combining its assets and liabilities with those of the Share Insurance Fund is likely to introduce complexity and confusion.

Currently, there is little publicly available detailed information on the management of the individual failed corporate asset management estates, particularly how gains and losses on the Legacy Assets are allocated and how legal recoveries and legal fees have been or will be allocated. Adding to this, the Proposal does not explain how future Share Insurance Fund operating expense allocations or downturns in the Share Insurance Fund's investment portfolio performance might affect the ultimate cost of the Corporate System Resolution Program and the restoration of members' capital. Without this critical explanation, the Proposal has the potential to increase confusion among credit unions and to diminish public confidence in NCUA's commitment to accountability and transparency.

If NCUA closes the Stabilization Fund prior to 2021, the Board should set the normal operating level based on the Share Insurance Fund's ability to withstand a severe recession.



As stated above, EasCorp believes maintaining the Stabilization Fund through its current scheduled closure date in 2021 is the most prudent approach in that it provides the Board with the greatest flexibility for the successful completion of the Corporate System Resolution Program at a known cost. If the Board nonetheless decides to close the Stabilization Fund prior to 2021, the Board should consider that economic conditions far worse than a moderate recession could materialize at a time when NCUA no longer had access to the additional authorities Congress provided when the Stabilization Fund was created. Thus, if the NOL is based on a moderate recession, credit unions could receive premium rebates in 2018, only to be subject to premium assessments a year or two later, because of an actual severe recession (or worse).

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Once again, EasCorp thanks the Board for the opportunity to comment on the Proposal. Please let us know if you have any questions regarding this letter, or need additional information on EasCorp's perspective on the Proposal.

Very truly yours,

[Signature omitted for electronic filing purposes.]

Jane C. Melchionda
President and CEO